

DEPARTMENTS OF TRANSPORTATION, TREASURY AND GENERAL GOVERNMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2005

THURSDAY, APRIL 1, 2004

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:03 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Richard C. Shelby (chairman) presiding.

Present: Senators Shelby, Stevens, and Murray.

UNITED STATES POSTAL SERVICE

STATEMENT OF JOHN POTTER, POSTMASTER GENERAL AND CEO

OPENING STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Good morning. The committee will come to order.

Today the subcommittee will hear from the United States Postmaster General, John Potter. Mr. Potter has testified at a number of hearings in the last few months on postal reform, terror attacks using mail, and other issues facing the Postal Service. It has been several years, however, since the subcommittee has had the privilege of receiving testimony from the Postmaster General. We are pleased to welcome you here today.

As a vital component of our Nation's economy, it is absolutely crucial that the Postal Service maintain its role as a Federal Post and maintain the solemn obligation of universal service. In doing so, it is undeniable that the Postal Service must change and adapt in order to provide an affordable service that continues to tie our Nation together.

Without question, the United States Postal Service has confronted some significant changes over the last few years. The current business model of the Postal Service is outdated and is not economically viable in the 21st century. The financial problems have been further complicated since the terrorist attacks that used the mail system to deliver biological weapons.

Even as the number of customers and addresses that the Postal Service serves has increased, the volume of first class mail has dropped steadily since 2001. The Postal Service now faces stiff competition from a variety of electronic communications options that

did not widely exist a few years ago, as well as from private sector delivery services. Furthermore, postage rate hikes have only caused consumers to further rely on alternative means of communications. All of these factors have become a self-fulfilling prophecy of future postage rate increases to offset the decline in volumes of first class mail.

And as one who believes that a comprehensive Postal Service for all Americans, rural and urban, is one of the central elements of keeping the country connected, the first class revenue and volume dilemma is one we have to address and solve.

As difficult as these challenges are, the Postal Service is also charged with ensuring the safety of the mail. The anthrax attacks in 2001 and the more recent attacks using the deadly toxin ricin create a daunting overlay on every aspect and element of the Postal Service's operation.

I need not elaborate today any further on the challenge this presents to the Postal Service and look forward to hearing what steps are being taken to prevent these attacks from happening in the future.

I would also appreciate learning about your plan for screening the mail to provide for the safety of Postal customers and Postal employees while also ensuring timely delivery.

In the wake of anthrax attacks, Congress provided the Postal Service with emergency funding to decontaminate sorting facilities and to procure biohazard detection equipment. The Postal Service has used this funding to install sensors that detect anthrax at several facilities. I have been told, however, by the General Accounting Office and others, that the system cannot adequately detect other agents.

I am concerned that the prior investment may be too focused on reacting to the last threat and not focused enough on detecting other threats.

The Postal Service submitted a budget request to Congress that includes \$779 million for emergency preparedness activities. This funding, however, was not included in the President's budget. I hope you will discuss the next steps for the Postal Service and what sort of investment we can expect in future years.

Today, I would also like to discuss the reform plans that you have put in place and those legislative reforms that the Postal Service is pursuing in order to properly transform itself into a self-sustaining enterprise.

The Postal Service has several advantages that are relevant in the 21st century. It is the only delivery service capable of reaching every household in America, by providing direct access to each and every mailbox. It connects communities, particularly those in rural areas. It also presents tremendous potential for those mailers who desire to reach 100 percent of the population in a given community or area.

I look forward to hearing your thoughts, Mr. Potter, on how best to leverage these and other of the Postal Service's unique attributes into increase revenues and market growth.

The Postal Service has been granted significant relief from its retirement obligations through the recently enacted Postal Service Retirement System Funding Reform Act. I would appreciate hear-

ing your perspective on how the Postal Service expects to utilize these newly available resources.

As part of any serious reform effort, the Postal Service must improve its focus on its core services. It has not been an effective competitor in commercial activities that are unrelated to its traditional responsibilities, and these forays have diverted funds from other necessary expenses.

In addition, the post office must not lose sight of its efforts to control its costs. I commend the Postmaster General for streamlining the workforce by 10 percent over the last 5 years without layoffs. This is a good start, but more cost-cutting measures will be needed to reshape the Postal Service into a self-sustaining, commercially viable enterprise.

We have basically two tracks that we can take. We can either do things better or do things differently. We hear time and again about processes that private businesses have put in place to become more competitive. Perhaps now we should find ways to challenge the Postal Service to bring their costs in line with what is offered in the domestic marketplace.

And, perhaps now is the time to pursue reforms and performance measures that focus the Postal Service on those things that no one else can do and encourage American businesses to provide those services that they can do better.

The Revenue Foregone Reform Act of 1993 retains free postage for visually impaired customers and for overseas absentee balloting materials. To pay for these services, the Act provides for an annual \$29 million appropriation to continue through 2035. Since 1994, the Postal Service has used this annual appropriation to pay off debt accumulated in the early 1990s. In reviewing the administration's budget request, I found that no funds were provided.

In recent years, some have suggested that the Postal Service should reduce its days of operation, as well as the scope of its service to rural areas of the country, in order to cut costs. I am heartened that you and the Service have steadfastly resisted such short-sighted so-called reforms. In the course of your testimony today, I hope that you will renew your commitment to maintaining universal 6-day-a-week service.

Mr. Postmaster General, as encouraged as I am by your defense of affordable universal service, I am concerned that the current moratorium on new construction has left many communities without adequate facilities for the dispatch and delivery of U.S. mail. For universal service to be meaningful, it must be reasonably accessible and convenient for customers.

PREPARED STATEMENT

It is my express hope that you will, today, outline the Postal Service's plan for again investing in the communities to which its service and presence are so vital and for innovative arrangements to keep the rural communities connected to the post office.

Again, I want to welcome you to the subcommittee and look forward to discussing the important matters during the question and answer period.

Senator Murray.

[The statement follows:]

PREPARED STATEMENT OF SENATOR RICHARD C. SHELBY

Good morning. Today the subcommittee will hear from the United States Postmaster General John Potter.

Mr. Potter has testified at a number of hearings in the last few months on postal reform, terror attacks using mail, and other issues facing the Postal Service. It has been several years, however, since the subcommittee has had the privilege of receiving testimony from the Postmaster General, and we are pleased to welcome you.

As a vital component of our Nation's economy, it is absolutely crucial that the Postal Service maintain its role as the Federal Post and maintain the solemn obligation of universal service. In doing so, it is undeniable that the Postal Service must change and adapt in order to provide an affordable service that continues to tie our Nation together.

Without question, the United States Postal Service has confronted some significant challenges over the last few years. The current business model of the postal service is outdated and is not economically viable in the 21st century. The financial problems have been further complicated since the terrorist attacks that used the mail system to deliver biological weapons.

Even as the number of customers and addresses that the Postal Service serves has increased, the volume of first class mail has dropped steadily since 2001.

The Postal Service now faces stiff competition from a variety of electronic communications options that did not widely exist a few years ago as well as from private sector delivery services.

Furthermore, postage rate hikes have only caused consumers to further rely on alternative means of communications.

All of these factors have become a self-fulfilling prophecy of future postage rate increases to offset the declining volume of first class mail. And, as one who believes that a comprehensive postal service for all Americans—rural and urban—is one of the central elements of keeping the country connected, this first class revenue and volume dilemma is one we have to address and solve.

As difficult as these challenges are, the Postal Service is also charged with ensuring the safety of the mail. The anthrax attacks in 2001 and the more recent attacks using the deadly toxin ricin create a daunting overlay on every aspect and element of the Postal Service's operation.

I need not elaborate any further on the challenge this presents to the Postal Service and look forward to hearing what steps are being taken to try to prevent these attacks from happening in the future. I would also appreciate learning about your plan for screening the mail to provide for the safety of Postal customers and Postal employees while also ensuring timely delivery.

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I look forward to hearing your thoughts, Mr. Potter, on how best to leverage these and other of the Postal Services' unique attributes into increased revenues and market growth.

The Postal Service has been granted significant relief from its retirement obligations through the recently-enacted Postal Civil Service Retirement System Funding Reform Act. I would appreciate hearing your perspective on how the Postal Service expects to utilize these newly available resources.

As part of any serious reform effort, the Postal Service must improve its focus on its core services. It has not been an effective competitor in commercial activities that are unrelated to its traditional responsibilities, and these forays have diverted funds from other necessary expenses.

In addition, the post office must not lose sight of its efforts to control its costs. I commend the Postmaster General for streamlining the workforce by 10 percent over the last 5 years, without layoffs. This is a good start, but more cost-cutting measures will be needed to reshape the Postal Service into a self-sustaining, commercially viable enterprise.

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Perhaps now we should find ways to challenge the postal service to bring their costs into line with what is offered in the domestic marketplace. And, perhaps now is the time to pursue reforms and performance measures that focus the Postal Service on those things that no one else can do and encourage American businesses to provide those services that they can do better.

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It is my express hope that you will, today, outline the Postal Service's plan for again investing in the communities to which its service and presence are so vital and for innovative arrangements to keep the rural communities connected through the Post Office.

Again, I welcome you before the subcommittee today and look forward to discussing these important matters during the question-and-answer period.

With that, I yield to Senator Murray for her opening statement.

STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Thank you, Mr. Chairman.

This is our subcommittee's first hearing with the Postal Service since we took over appropriations jurisdiction for this critical Federal agency.

I want to welcome the Postmaster General, John Potter, to the subcommittee. Mr. Potter is a true American hero. He worked his way up from the most junior ranks at the Postal Service to become the Postmaster General.

Today the Postal Service faces unprecedented challenges as it seeks to cover its expenses through the postal revenues paid by the public. The same technologies that helped make our country more productive have undermined the financial foundation of the United States Postal Service.

Today first class mail represents less than half of the volume of mail delivered by the post office. At the same time, mail service revenues continue to decline year after year.

Many of the technological advances that have allowed our citizens to avoid first class mail were developed in my home State of Washington. Even so, I am concerned that we be attentive to the

critical role that the Postal Service plays in all of our communities. The Postal Service's existing business model is now viewed as unsustainable.

Some of the alternatives being considered are ending mail service to all rural addresses and ending mail delivery on Saturdays. For high tech households in urban areas like Seattle that may be fine. They can pay their bills online and communicate through PDA's, e-mails and cell phones. But that alternative is certainly not acceptable to retirees living on fixed incomes in Pend Orielle County or Klickitat County in Washington. They may be waiting on their Saturday mail delivery to get their Social Security check or their prescription drugs.

We have got to be attentive to the ways that these proposed changes would affect all of our citizens in all of our communities.

In his formal opening statement, Postmaster Potter will discuss the fact that the Department of Homeland Security and the Department of Health and Human Services are developing a plan through which our Nation's letter carriers can be called on to deliver antibiotics to Americans in the event of a catastrophic incident involving a biological agent.

This plan highlights the fact that our Postal Service is a critical standing army that touches all American households in all Congressional districts 6 days a week, no matter how rural, how isolated or how poor those households may be. We should take great care before we sacrifice this ready and able Federal force. We cannot envision today every reason why we may need them in the future. After all, before September 11th, 2001 we never envisioned the need for our Postal Service to perhaps deliver emergency vaccines in the event of a biological emergency.

PREPARED STATEMENT

So I hope our subcommittee will be attentive to the very real appropriations needs that will be articulated by the Postmaster this morning. In many cases, the needs of the Postal Service have been ignored by the Bush Administration's fiscal year 2005 budget request. For the first time ever, the Bush Administration is not even requesting funds to honor the Federal commitment to the Revenue Foregone Act of 1993. In 11 years no president has zeroed out funding for this activity. So here, as in many areas, the subcommittee may need to chart its own path to ensure that all Americans in all regions of the country are joined together through a vibrant and effective postal system.

Thank you, Mr. Chairman.

[The statement follows:]

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Indeed for the first time ever, the Bush Administration is not even requesting funds to honor the Federal commitment to the Revenue Foregone Act of 1993. In 11 years, no president, including the current president's father, has zeroed out funding for this activity.

So, here as in so many areas, the subcommittee may need to chart its own path to ensure that all Americans in all regions of the country are joined together through a vibrant and effective postal system.

Thank you, Mr. Chairman.

Senator SHELBY. Mr. Postmaster General, your written statement will be made part of the record in its entirety. We have reviewed that. You proceed as you wish. Welcome again to the committee.

STATEMENT OF JOHN E. POTTER

Mr. POTTER. Thank you, Mr. Chairman.

Good morning to you and to Senator Murray.

I appreciate this opportunity to speak with you today about the Postal Service, its accomplishments over the past years and our appropriations request for the next fiscal year. You have my detailed testimony, as the Chairman said, so I will keep my remarks brief.

My thanks to the subcommittee for its support of the Civil Service Retirement System legislation that was enacted last year. We continue to work with the Congress on two open issues: the escrow account and military retirement provisions. We hope they will both be resolved as soon as possible.

The legislation has helped our customers by providing for stable rates until 2006. Stable rates and strong service performance are key elements to enable the mailing industry to stabilize and grow

again. I remain committed to a strong customer focus. I remain committed to a Postal Service that is financially strong. We continue to aggressively manage the business. We are doing more and doing it better with less.

Last year we added more than 1.7 million new addresses to our delivery network. Service performance and customer satisfaction reached their highest levels ever. Total factor productivity grew for an unprecedented fourth straight year. We remain on schedule to remove at least \$5 billion from our annual operating costs over the 5-year period ending in 2006. Internally, key indicators point to an improving work place environment.

Yet these successes mask a marketplace that continues to show signs of long-term erosions. In 2003 First Class volume fell by more than 3 billion pieces of mail. We have seen First Class continue its decline this year as well.

It is clear that the Postal Service can no longer rely on a limited monopoly that assumed rising mail volumes would offset the costs of an ever-expanding delivery network. At the end of the day that means the level of universal service that America enjoys is in jeopardy unless we all act now.

I encourage the Congress to continue to explore new models that will lead to modern day management flexibility in how we operate.

As the reform process continues to unfold we are here today to address more immediate needs and to submit our appropriation request for fiscal year 2005.

Our first request is for \$29 million for revenue foregone reimbursements to cover the cost of services we provided from 1991 through 1998. This will be the 12th of 42 interest-free payments. The administration's budget submission for 2005 does not include provision for this statutory reimbursement. Failure to receive these funds may require us to treat the remaining payments of nearly \$900 million as bad debt. That would put upward pressure on our rate structure.

The second part of our request is for \$75.9 million. This request provides funding for the free mailing of materials used by the blind and other handicapped persons. It also includes funding for absentee balloting materials that can be mailed free by members of the armed forces and other U.S. citizens residing outside the United States.

The administration proposes \$61.7 million and continues the practice where reimbursement is not made until the fiscal year after the mailings have been handled and delivered.

The third part of our appropriation request is for homeland security preparedness costs of \$779 million. We gratefully acknowledge the funding previously given to us for this purpose. Those funds enabled us to accelerate implementation of our emergency preparedness plan which was submitted to Congress in 2002, and which we updated last spring.

The previous appropriation of \$587 million enabled us to provide personal protective equipment for our employees, to provide equipment and facilities to treat mail for the legislative, executive and judicial branches of government to neutralize any biohazards that may exist in that mail, to undertake decontamination of major mail processing facilities in Washington, DC and Trenton, New Jersey,

and the development, testing and purchase of state-of-the-art bio-hazard detection and ventilation and filtration systems for deployment to 282 mail processing facilities in every State in the union.

The task ahead of us is both costly and critical to the safety of our employees and the millions of Americans who rely on the mail day in and day out to build their businesses and stay connected with families and loved ones. I believe it is imperative that we continue the work we have already begun on homeland security.

The funds we request will enable us to complete that work. Specifically, the funding will support the full deployment of the bio-hazard detection system, the ventilation and filtration system and the construction of a Washington-based mail irradiation facility.

Our request covers only the capital expenses of obtaining this equipment. After initial deployment, operation and maintenance will become part of the Postal Service's normal operating expenses.

At the same time, we recognize that the threat of bioterrorism is pervasive, that the threats we face today may be far different than in the future. With that knowledge, we continue to evaluate technologies that offer protection from other hazards.

I wish these funds were not necessary. But as we learned from the anthrax attacks and the recent ricin incidents, the threats remain real.

In a democratic society marked by free and open communications, there will always be the possibility that some person or group will use the mail's unequalled tradition of privacy to mask an agenda of hate and destruction. As a Nation, we must be prepared to do what is necessary to neutralize the threat to the extent possible.

We are more than willing to do our part on this war on terrorism. We are working with first responders as we deploy bioterrorism systems. In community after community we are acting as a catalyst to create dialogue and establish protocols consistent with standardized Federal response procedures. This is an important role that can save lives in the event of any future real attacks.

In addition, the Postal Service's efforts to contribute to homeland security were advanced by a joint agreement with the Department of Health and Human Services and the Department of Homeland Security. In the event of a catastrophic biological incident, our letter carriers would voluntarily deliver antibiotics to affected Americans. The procedures we develop will augment and not replace those of local communities.

PREPARED STATEMENT

Finally Mr. Chairman, I want to add that although we are authorized by statute to request an annual public service appropriation of up to \$460 million, we have not made that request since 1982 and I am pleased to say we are not requesting that appropriation for fiscal year 2005.

Thank you, Mr. Chairman. I will be pleased to respond to any questions you may have.

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- Provide personal protective equipment for our employees;
- To provide equipment and facilities to treat mail for the legislative, executive and judicial branches of government to neutralize any biohazards that may exist;
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Specifically, the funding will support the full deployment of the Biohazard Detection System, the Ventilation and Filtration System, and the construction of a Washington-based mail-irradiation facility.

Our request covers only the capital expense of obtaining this equipment. After initial deployment, operation and maintenance would become part of the Postal Service's normal operating expenses.

At the same time, we recognize that the threat of bioterrorism is pervasive—that the threats we face today may be far different in the future. With that knowledge, we continue to evaluate technologies that offer protection from other hazards.

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Thank you, Mr. Chairman. I will be pleased to respond to any questions.

EMERGENCY PREPAREDNESS

Senator SHELBY. I want to discuss emergency preparedness expenses if I could.

Since 2002, Congress has provided emergency appropriations to support the Postal Service's anthrax emergency preparedness activities. After the attacks, the Congress appropriated \$762 million to decontaminate postal buildings and to buy and install biohazard detection equipment. The Postal Service reportedly has spent a total of \$971 million on emergency preparation, which includes \$209 million from its revenue.

Provide us an overview, briefly, of what this funding has been spent on to date. In other words, give us an accounting.

Mr. POTTER. The funding has been spent on—\$268 million of it has been spent for building restoration; \$402 million has been spent for biodetection systems; \$271 million has been spent on ventilation and filtration systems; \$9 million will be spent on a D.C. area irradiation facility. We have not committed to that. We are doing some environmental assessments but our intent is to spend it on that.

Senator SHELBY. How much will that cost, roughly?

Mr. POTTER. It will cost roughly \$16 million. But we have bought the equipment to irradiate the mail and that is the \$9 million of expense that we have. Our intent is to do it on the campus of the Brentwood facility, on the grounds of the Brentwood facility.

Senator SHELBY. Since your emergency preparedness plan was submitted last spring, what additional steps have you taken to pre-

pare for another attack if there is one? We hope there is never another one.

Mr. POTTER. One of the things that we are constantly doing, Mr. Chairman, is looking at other technologies that might be out there. Today we have a test underway for chemi-luminescence. That is a test that will not only detect biohazards as the polymer rays—

Senator SHELBY. Will that detect chemicals?

Mr. POTTER. It will detect chemical. It will be able to detect ricin, biological and chemical, as well.

And we have designed our system—

Senator SHELBY. How is the technology coming along? Are you testing it?

Mr. POTTER. We are testing that as we speak. We are using the Department of Defense to help us with those tests. We have designed our biodetection system to be flexible enough to add new technologies to that system.

So our base system is there. We are excited about the new technologies that are coming down, that appear to be on the horizon, and we are actively testing those that show promise. And we are doing that with the appropriate Federal agencies.

Senator SHELBY. You submitted a request for \$779 million to install biodetection equipment and to improve ventilation and filtration systems at postal facilities. Why is the Postal Service having difficulty with OMB getting that approved?

Mr. POTTER. I believe that they understand the need for it. Obviously there are—given the fact that the country is at war, there are a number of priorities. And I believe that, in terms of their priorities and their immediate needs, they have made a decision about where that stands for fiscal year 2005.

We wrote a letter of appeal to OMB when we heard about their decision because we believe that there is a need to provide these systems throughout the country to protect all communities.

Senator SHELBY. You have been quoted as saying that funding for biohazard detection equipment is either going to come through an appropriation or rate increase. Is that the only choice you have? Or do you have money that you could get out of your escrow fund?

Mr. POTTER. The only ways that the Postal Service can obtain money is through appropriations or through the rates process. So any cost, whatever it is, for the Postal Service, if it is not appropriated by Congress—and there are very limited amounts of funds that are appropriated by Congress, \$29 million and the monies for the blind—the only way we have to raise money is through rates.

Now I am not saying that this would mean that we have to raise rates tomorrow, but the funds would have to come through the rates process at some point in time in the future.

Senator SHELBY. Detecting biohazards in the mail is the next subject I want to raise. We have been told by the GAO and others that the detecting systems that the Postal Service has acquired may not have the capability to detect other hazardous agents such as chemical or a radiological weapon. Would you explain the capabilities of these systems that you are getting?

Mr. POTTER. The current system that we are—

Senator SHELBY. But you want to spend money wisely, and I know you do.

Mr. POTTER. We are spending it wisely. But we also recognize there is an immediate need to move.

Senator SHELBY. You have got to be thinking of the future. What else is out there, right?

Mr. POTTER. Exactly. So we believe our system can be augmented. And we have designed a system that is flexible enough to add new technologies to it.

So today we can detect DNA. Our systems are designed to detect DNA or measure DNA or look at DNA. Our system today can do that.

We are working with the appropriate authorities to determine what other threats are out there that might be of a bio-nature. And we can add up to 10 agents being detected with the current system.

In addition to that, we are looking at electro-chemiluminescence as an opportunity down the road to be able to now detect chemical or toxins. And it appears to be promising but we have to await the tests before we move on it.

PERFORMANCE GOALS

Senator SHELBY. Performance measures. The European Union has agreed to a standard of 85 percent of cross-border letter mail must be delivered in 3 days and 97 percent must be delivered in 5 days. Has the Postal Service established similar performance goals? And if you have not, do you contemplate it? And what are the standards used by the Postal Service to determine if the performance goals are being met?

Mr. POTTER. The goals of the European Community have been shared and are measuring themselves against what was formed as part of the International Postal Corporation. The Postal Service is a member of that group. We do measure performance within a small community of nations, European, Canada and the Postal Service. The UPU, the United Nations Universal Postal Union is having a big meeting this year where they are going to discuss the notion of expanding what has been done within the IPC to the rest of the world. We certainly will embrace the notion of putting standards amongst the countries of the world.

Obviously there are some Third World countries that would have problems meeting such a standard. But the Postal Service, the United States Postal Service, is engaged through the UPU in discussions on increasing the standards for delivery of mail throughout the world.

Senator SHELBY. Are you going to those same standards? And if so, when do you think you will be doing that for the delivery of mail?

Mr. POTTER. Right now within the IPC we are, for those communities. But it is not measured—beyond that small group of nations—mail is not measured.

Senator SHELBY. Let us talk about the United States of America. Let us say from Seattle, Washington to Portland, Maine. What is the average first class delivery on that?

Mr. POTTER. The standard is 3 days and we are achieving that, about a 90 percent on-time delivery.

If you look at the United States, our overnight area which is generally within about 100 to 150 miles of an origin, our goal is overnight service. Right now we are achieving 95 percent.

Within 500 or 600 miles is our 2-day standard. We are achieving a little over 90 percent. Three-day nationwide, our goal for areas beyond 600 miles, our goal is 3 days. Last quarter we achieved a 90 percent. This quarter we are at about an 88 percent. The reason for the decline is the weather that we have experienced and the shutdown of airports around the country.

Senator SHELBY. What would be the average mail performance of first class mail from Atlanta, Georgia to Birmingham, Alabama? It is about 150 miles.

Mr. POTTER. It would probably be a 2-day standard and I can give you specifically in a follow-up what the actual achievement was. I would be guessing at best if I attempted to tell you. I hope it is very high, though.

[The information follows:]

A First-Class letter mailed from Birmingham, AL, to Atlanta, GA, is delivered in 2 days. During the first quarter of fiscal year 2004, First-Class Mail destined for overnight delivery in Alabama was delivered on time 93 percent of the time.

Senator SHELBY. I was going to use Spokane, Washington to Seattle. What is the delivery time there from Spokane to Seattle? I hope about half a day.

COST REDUCTIONS

Cost reductions. Would you touch on cost reduction measures for just a minute? And also, how do you intend to implement the process of streamlining the Postal Service's operations?

Mr. POTTER. The first thing that we have done nationwide is to standardize our operations.

Senator SHELBY. What do you mean by standardize?

Mr. POTTER. By standardize I mean what we have done is we have benchmarked internally against ourselves and we have identified the top quartile of performers in the country in any operation, whether it is sorting mail, canceling mail. And what we have done is we have looked at the best practice—and we have done this about 3 years ago.

We looked at what the best practices were that enabled them to be in the top quartile. We then, in turn, shared that throughout the country and said these are the practices that work, here is an expectation of how you should perform. And we set targets for improvement year by year.

What you have seen is a continuous improvement in productivity throughout the country. You have seen us be able to not replace work force that we had habitually just replaced, as people leave, we replaced them. For every three people that leave the Postal Service we replace one. And largely it is because of the opportunity to improve productivity.

We have also gone back and looked at all of our carrier routes to determine whether or not the 8-hour job that this route was based upon is still 8 hours. With the decline in mail volume over the years, what has happened is the average delivery in America which as recently as the year 2000 was reaching 1,870 pieces of mail per year, that has declined to 1,700 pieces of mail per year.

Senator SHELBY. What percentage of those 1,700 is first class mail?

Mr. POTTER. Just slightly less than half.

And so as a result of the decline in volume per delivery, that has reduced the workload for a carrier and has enabled us to go back in and reconfigure those routes so they have more deliveries.

So it is those kind of just basic practices that have enabled us to streamline and lower our costs.

In addition to that, we have been very careful about the purchase of goods and services. Over the last 3 years we have reduced our annual spending on goods and services by \$1 billion. So any time a truck route comes up for rebid, we review it. A lease for a facility, we review it and look at our needs and determine whether or not it is the most economical way to go.

Senator SHELBY. Have you saved a lot of money that way?

Mr. POTTER. We have saved over \$1 billion in our base per year.

Senator SHELBY. How many years have you been associated with the postal system?

Mr. POTTER. Me, personally? Twenty-five.

Senator SHELBY. So you have done just about every job?

Mr. POTTER. Pretty much, yes.

Senator SHELBY. Thank you.

Senator Murray.

APPROPRIATIONS REQUEST

Senator MURRAY. Thank you, Mr. Chairman.

As the Chairman referred to, on security and emergency preparedness efforts, it is a big undertaking and one that is necessary so that our mail workers can be protected and the mail processing and deliveries will be as safe as possible.

Congress was able to provide some initial funding in the amount of \$762 million. Last year you requested \$350 million, not even a dollar of which this subcommittee was able to provide.

This year you are requesting \$779 million, which includes the 2005 request of \$429 million plus the 2004 request that was not funded.

If we are to do anything in support of this request it must be exempt from the spending cap set forth in the budget resolution. In other words, the only way to provide this funding would be if it were declared an emergency.

You did not receive any appropriations last year for emergency preparedness and you were still able to proceed with anthrax decontamination and are now proceeding with plans to put in place biodetection devices in all of your plants. If that is the case, why are you asking for funding?

Mr. POTTER. Because when the initial funding was provided, it was noted that it was an extraordinary circumstance that surrounded this whole biohazardous-material-in-the-mail issue. And at the time, the Congress said that it was providing funding because of these specific security concerns and the Congress's notion that they wanted to help protect the mail system from biohazards.

So consistent with that sentiment that was expressed a couple of years ago, we feel that we have continued down that path and asked for the funds again simply for the capital portion of these

systems, with the Postal Service picking up the operating expenses. So again, we are responding to the sentiment of the Congress in the past and we would hope that it would continue on into the future.

BIOHAZARD DETECTION SYSTEMS

Senator MURRAY. The biodetection systems that you referred to a few minutes ago that you are planning to install to detect anthrax, do you have an estimate yet on how much it would cost to retrofit the machines to detect ricin or other toxins?

Mr. POTTER. We believe that they can be retrofitted. Our estimates are, if we move to the new technology, we could do it within the \$779 million because of the fact that we have not fully deployed these systems and we can reduce the amount of the systems that we would have to deploy. So right now it looks like we could do it within the requested funding.

Senator MURRAY. How can we be sure that those machines will be effective against anthrax or other toxins? And is there a chance it is going to be outdated before we get it installed? Is nanotechnology coming?

Mr. POTTER. We were very concerned about a couple of things. One was, and very important, was the reliability of the system. Because a false-positive, as we have learned over the last several years, creates a lot of panic not only within the postal community and our workers but also within the communities that surround our facilities.

And so we were very, very diligent in making sure that these systems were effective. And our requirement was that we have no more than one in every 500,000 tests be a false-positive. And that was a high hurdle for us to achieve and for our suppliers to achieve. And that is why it has taken quite a long time for us to do that.

One of the things that we have done is we have tested in a lab environment a thing we call an anthrax simulant. So basically it is a non-virulent form of anthrax. And we have tested the system such that every time we put this non-virulent form of anthrax in, it has a 100 percent hit. We did not want to err on the side of lack of false-positives and in the process compromise the notion that if something was in the system it would be found.

So we have again spent a lot of time, a lot of diligence coming up with a system that right now is state-of-the-art, that again we do not know and we cannot forecast what the equipment will be 3 and 5 years down the road. But the need for us is immediate.

We have had over 20,000 incidents where buildings have been closed, postal facilities have been closed because of anthrax hoaxes or just accidental spills. And we believe we need, again for the safety of our employees and the people in facilities, we do not want to get to the point where we become so callous to the fact that these incidents occur that when the real one does happen we are not ready to react. So we have to step up and move this equipment out.

And I wish I knew what the best would be 10 years from now and I could buy it today but that is simply not the case. We have to move on the best we know. And we have used a whole army of folks in every agency that we could think of that could help us to

determine what the best technology is today and to move out on it.

Again, safety of our employees and safety of the communities is paramount. I wish we could wait but I do not think we have the time to.

Senator MURRAY. Fair enough.

POST OFFICE CONSOLIDATION

Mr. Potter, an issue that has always been a concern to this subcommittee is the consolidation or closure of small or rural post offices. In fact, every year we carry bill and report language prohibiting any of the funds provided from being used in the consolidation of or closing of rural and other small post offices.

In addition, Title 39 of the U.S. Code stipulates that "no small post office shall be closed solely for operating a deficit, . . .". It is not altogether clear that consolidation or closures undertaken by the Postal Service are consistent with the law.

Is the Postal Service planning to consolidate any operations or close any post offices this year?

Mr. POTTER. The post office does suspend post office operations and has done so for years and will continue to do so. We have, just to describe it to you, we have over 2,500 post offices that serve less than 200 people. We have over 4,500 post offices that serve less than 200 deliveries. Now I am not here to tell you that any one of those post offices should or can be closed.

But I also will tell you that we do have post offices that are in people's living rooms. We have post offices that are in stores. And as these smaller communities, and I just described a profile of some of them, as these communities in some cases wither and die, we cannot get people to volunteer their living rooms to be post offices when somebody retires.

Or if we are the last storefront in town and a flood wipes it out, we are not about to rebuild the post office.

And we have had emergency closures and we have followed the procedures as laid out by the Postal Rate Commission. We followed those procedures for closures. But we have no wholesale plan.

I think there is some assumption that someone in the Postal Service has a plan to close 20,000 facilities. There is no such plan.

However, we do have these small units that by act of God or somebody retiring, you know, we have to make decisions about how we best serve those communities and we do. In many cases, what we do is we provide delivery to the door or delivery to the end of a person's property versus them having to travel down to the post office.

So we are committed to universal service. We will provide service to every American wherever they are and we have no game plan to close post offices en masse. There is nobody sitting with a secret list of 20,000 post offices to close, although people would have you believe that. But every time that there is an act of God or retirement we do consider okay, how do we best serve the community?

VERTICAL IMPROVED MAIL

Senator MURRAY. In downtown Spokane, in my State, recently six of the satellite post offices were closed. Those six post offices

served as kind of a collection point of mail for the majority of businesses that are in downtown Spokane. They have now been replaced with unstaffed mailrooms and locked mailboxes. And as a result there has been a lot of disruption of service to the buildings. My office has received a lot of phone calls and letters regarding that.

Can you tell me if that type of consolidation is occurring in other parts of the country?

Mr. POTTER. We call it a VIM room.

Senator MURRAY. You call it what?

Mr. POTTER. VIM, which stands for "Vertical Improved Mail". Years ago the Postal Service decided that as large buildings were constructed, we provide centralized delivery. And in many cases, the building owner provided us a room in which our employees could come and work and sort mail so that the people in the building could pick it up from the equivalent of a post office box. And they could pick up their packages by knocking on the door.

What has happened over the course of time is the volume of mail for those vertical buildings, those big tall buildings, has gone away. Business-to-business delivery or business-to-business white communication letter and flat communication has dropped dramatically. Because the first group to move to electronic communication were businesses who were equipped to do that.

And so what we have done is we have undertaken an evaluation of those delivery units that are only located in large buildings. They are not post offices. They were built to provide delivery. If our person can go in there and sort the mail for the building in 2 hours, it makes no sense to leave the person there for 8 hours.

And so we have gone throughout the country, and again the action is a result of a reduction in mail. In some of those cases what we have done is we have had two and three people working in those units and we have reduced the number of people. They may still get 8 hour coverage. But 40 percent of those units throughout the country have eliminated full-time staffing in those units.

Again, it is a result of demand. If the customer is not using the mail, we are not going to leave that open.

Senator MURRAY. I think one of the problems and the reason people were so upset is that the Spokane business community was not officially informed or told that any of this consolidation was happening. A lot of them learned about the service reduction from signs that the post office posted after the service reductions were made. And in some cases, the information on the signs was inaccurate and postal customers were really left in the lurch, which is why we are hearing from them.

I would just encourage you to, if you have to do these kinds of things, really work with the business community especially in those areas to make sure they understand and are working with you.

Mr. POTTER. You have my assurance, we will look at the whole communications effort. Because I think if people understood the background that I just described to you, they would know that we are making a good business decision. And our intent is not to reduce the level of service to those buildings but to maintain it, if not improve it.

Senator MURRAY. Thank you. I really appreciate that.
Thank you, Mr. Chairman.
Senator SHELBY. Senator Stevens, thank you for joining us.

STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. Thanks very much, Mr. Chairman.
We have several subcommittees meeting this morning at 9:30 and 10 o'clock. So I am sorry I was not here at the beginning of it. Would you place my opening statement in the record?
Senator SHELBY. Without objection, it will be made part of the record.
[The statement follows:]

PREPARED STATEMENT OF SENATOR TED STEVENS

Thank you Chairman Shelby for holding this hearing.
I commend Postmaster General Jack Potter for his efforts which have guided the Postal Service since June 1, 2001. Under his leadership, the Postal Service has increased productivity and has improved customer satisfaction.
In the early 1970's, I along with other senators, joined together to create the Postal Service out of the Old Post Office Department. In 1971, President Nixon signed into law the Postal Reorganization Act. Since the Postal Reorganization Act was originally adopted, technological advances coupled with the financial state of the Postal Service have demonstrated the need for postal modernization.
Reducing the Post Office's debt is a priority. I am committed to working with Senator Collins, Senator Carper, and other members of the Government Affairs committee to draft postal reform legislation to ensure the vitality of the Postal Service.
For my State of Alaska, the Postal Service and the concept of universal service are essential. Alaska does not have access to the infrastructure found in the lower 48. For many Alaskans the mail service is a lifeline. Each day the Postal Service delivers 2 million pieces of mail to Alaskan homes and businesses, including vital products that would not otherwise be available in bush Alaska.
The services provided by the United States Postal Service reach every home and business in America and are essential to American commerce and society.
I know the Postal Service is requesting funds for emergency preparedness and I believe it is important to ensure the Postal Service has adequate funds to safeguard this country from a hazardous substance attack. The Postal Service is a possible conduit for terrorist activity, therefore it is necessary for the Postal Service to have detection systems to not only protect postal employees, but to intercept mail carrying hazardous substances.
I believe we should do what we can to help the Postal Service ensure this Nation's safety.

Senator STEVENS. I do commend the Postmaster General for his handling of systems right now, particularly during this period of terrorism. And I want the subcommittee to know that I have personally visited with him concerning the emergency preparedness funding that is so essential. And after that, personally visited with the director of OMB.

We are still trying to work out how we can handle this because the budget, as you know, has not handled it in the budget session. We will have to work with the Governmental Affairs Committee and members of our committee to see if we can get support for an emergency declaration for the money that they need.

I believe that the Senate, in particular, should push this because after all we were the target of both the attacks. The terrorists' use of the mails to come to the Senate, I think is something the Senate must respond to.

And I do believe that if we declare that emergency that the House will accept it.

So I cannot tell you we have got an agreement yet, Mr. Postmaster General, but we are still working on it.

I do thank you for the new post office that is going to be brought to that little town I live in in Alaska, which is a very welcome development from our point of view. And I hope that you will be able to come up this summer and dedicate it.

Maybe the Chairman would come, also.

Senator SHELBY. I would like to do that.

Senator STEVENS. And we will have a little event there. There are only 1,900 people living there, Mr. Chairman.

Senator SHELBY. Do you have fish around there, Mr. Chairman?

Senator STEVENS. Not right there but we might be able to travel to a place where they fish.

I just pointed out to another subcommittee that when I was in Iraq and Afghanistan I pointed out that both of those nations would fit within my State with some space leftover. Actually, they are only each about the size of Texas.

I just really came by to give my support to you, my friend, and to urge the committee to work with me and with Chairman Collins and see if we can find the support that what we have to have for this emergency declaration for the money that you seek.

Mr. POTTER. Thank you, Senator.

Senator STEVENS. Thank you.

Senator SHELBY. Thank you, Chairman Stevens.

Do you want to respond to any of that?

Mr. POTTER. I would just like to thank Senator Stevens for his comments and to apologize to him. I did not realize how bad things were in Girdwood until I got there and found out that we had taken your post office box away and made you begin to get general delivery.

So I am sorry that you had to get in line to get your mail, but we will rectify that situation and certainly there other safety issues there. So I appreciate your bringing them to my attention.

Senator STEVENS. I may have failed to pay the rent, I am not sure.

Senator SHELBY. Mr. Potter, what would be the time sequence on mailing a first class letter from Fairbanks to Anchorage? When would it get there?

Mr. POTTER. Overnight.

Senator SHELBY. Thank you.

Senator STEVENS. That is called Alaska delivery.

Senator SHELBY. We like that Alaska delivery.

COMPETITION: E-COMMERCE

Competition. Why should the Postal Service, a \$68 billion enterprise with a government monopoly, be allowed to compete with the private sector in areas other than its original mission?

In other words, after reviewing the dismal financial results of virtually all the Postal Services' commercial initiatives, would it not make more sense to concentrate your focus on the Postal Service's core mission instead of risking new ventures? In other words, what steps have been taken by management to ensure that financial mistakes will not continue to happen?

Mr. POTTER. I think you will be happy to know, Mr. Chairman, that I have eliminated practically all of those ventures that were beyond our core mission. We still have a mailing online electronic presence. We believe that people should be able to, through the Internet, access a printer and send cards and letters and we believe that is part of our core business.

But for all intents and purposes, everything else has either been eliminated or the only thing that we lend to any of these ventures is our brand identity. We have pulled back from any expenditures that are beyond what we consider to be our core business.

REVENUE FOREGONE

Senator SHELBY. The Revenue Foregone Reform Act, to which Senator Murray alluded, required an annual reimbursement to the Postal Service of \$29 million to subsidize certain nonprofit mail. The total payment the Postal Service is expected to receive is \$1.2 billion.

You have received payments for the past 11 years but this budget submission does not request funding this year for this reimbursement.

What impact will this have on the Postal Service and its customers if this appropriation is not funded in 2005?

Mr. POTTER. One might say what is \$29 million to a \$68 billion organization? The real concern for us is that there is still some \$899 million owed and it is part of the statute that required a \$29 million-a-year payment.

Our auditor has told us that if that revenue stream is not a real revenue stream, according to GAAP rules, we may have to declare that entire revenue stream as being lost to us. And so that is the immediate concern that we have, that we would have to write off that revenue stream as a bad debt owed to us.

CIVIL SERVICE RETIREMENT SYSTEM

Senator SHELBY. Mr. Potter, the Postal Civil Service Retirement System Funding Reform Act, that is a mouthful, of 2003 reduced the Postal Service's funding requirement for Civil Service Retirement System pensions after it was discovered that the Postal Service was overfunding its—that is unusual—its Civil Service Retirement System obligation. The Postal Service used the savings from the Act to reduce its debt by \$3.8 billion. After 2004, the savings are to be held in escrow until otherwise provided by law.

How do you plan to expend the escrow savings if allowed to use them?

Mr. POTTER. The law required us to pay down debt last year with the savings, which we did. In fact, we paid down more debt than the savings were. This year it requires us also to take the "savings" and pay down debt.

In 2005, the law assumes that we will use those funds for operating expenses. And our goal next year is to break even or do better than break even.

In 2006 is when those monies would go into an escrow account. Now the escrow account, as we understood it, was created because there was concern on the part of some in Congress of how we would use those monies.

And we have provided a plan to the Congress, to the House, a very specific plan, a very thick plan, on how those funds would be used. It includes, in particular, a concern about how we would handle and deal with capital investments because there was some concern that we were not going to capitalize future equipment requirements that would help make the Postal Service more efficient.

So we have gone into great detail about what our capital investment plan is and we have talked about and addressed an issue of concern that was employee retiree health benefit funding.

So I have had a hearing at the House since and the indications have been that that plan has at least met the needs of most of the Congressmen. We have a similar request from the Senate and we are to provide that, I believe, by the end of this week, a similar plan. We have done some minor modifications but it is essentially the same plan.

So we believe we have addressed the concerns that caused folks to create the escrow account.

We need the escrow account to be eliminated now that people understand how we spend the money because there are no—if we are in a break even mode in 2005, there are no funds to create a \$3 billion plus escrow account. And so we would like that to be eliminated.

And the funds in 2006 would be used similar to the way they were used in 2005. Basically, they would be used for operating expenses and to fund the capital requirements.

FACILITY ISSUES

Senator SHELBY. Regarding facilities repair and new construction, I would like to get back to this for a minute.

In the last 3 years, the Postal Service has reduced capital expenditures by more than 50 percent by limiting capital commitments to levels that could be funded solely from cash flow. The infrastructure continues to age, as we all know.

In addition, many facilities can no longer meet the needs of customers as the delivery network continues to expand, while other customers lack convenient access to the postal system altogether.

What priority, Mr. Potter, has the Postal Service given to address new construction and expansion needs? And during the freeze on capital commitments, what has the Postal Service done to adequately maintain its existing infrastructure and preserve buildings in an economically effective manner? And, how will the Postal Service address infrastructure needs that have been deferred since the freeze on capital commitments commenced in 2001?

Mr. POTTER. Life safety is our No. 1 issue and throughout this process we have not taken any funds out of life safety. If buildings have been destroyed by acts of God, we have spent the money to repair those facilities. We have a robust repair and alteration budget. We have not eliminated capital funds for repair and alteration. We have slowed the building of new buildings. We have 38,000 buildings in the Postal Service. We only own 8,000 of those buildings.

Senator SHELBY. Say that again?

Mr. POTTER. There are 38,000 buildings in the Postal Service that we have. We only own 8,000 facilities.

So we have continued with leased facilities, a concept that has gone on. But the capital side, the building of postal facilities was slowed.

Now the rationales for slowing that down were a couple. One was cash flow. But another real important issue was what are our facility requirements going forward, particularly in light of the fact that we are seeing volumes decline, we are seeing a change in mailer behavior?

Mailers have taken advantage of rates that allow them to deposit mail close to delivery. So where in 1990, if you were to mail an advertising piece of mail from Washington, DC to anywhere in the country it would be the same rate for you to mail it from Washington, DC to Spokane, Washington or to Chicago.

Today we have rates that allow you to bring that mail well into the system, right down to the processing center. So I can bring the mail to the Seattle plant for mail in Washington and I pay a lower fee in order to do that.

Mailers have taken advantage of that in a significant way over the last decade. And in the process of doing that, they have reduced the infrastructure that we are required to have. So we are constantly analyzing that infrastructure.

Right now I believe we have more space in plants than we need.

In addition to that, delivery units, if you go back historically in delivery units—

Senator SHELBY. You have more space in plants now?

Mr. POTTER. That is the 282 processing centers.

Now in delivery units, we have also stepped back to take a look at what our requirements are. Today, about 80 percent of the mail for a letter carrier, letter size mail, is walk-sequenced. It is presented to the carrier off of a machine that is in a plant, where a decade ago they would have to sort all of those letters into a case to take out on the street. It is now presented to them in a tray. So that case does not have to be as big as it was before.

In addition to that, oversized letter mail, flat mail we call it, which is a catalog, a magazine or a large manila envelope. In the past all of that mail had to be sorted to the carrier route. So it would go to the post office, sort it to the carrier route in that unit by clerks at cases. Today, the bulk of that, over 90 percent of that sorting, has moved from that post office to the plant because we have automated equipment that sorts this mail at a very high productivity level.

In fact, we have doubled the level of productivity on flat mail in the last couple of years because we have automated it.

So where a post office used to have to have cases to sort mail, flat mail, to carriers and they would have to have carrier cases to sort mail for the walks along the way, the requirements of that unit have shrunk dramatically.

In addition to that, the number of packages that we have in the system has declined. Priority Mail, Express Mail and package mail is down. So we are looking at the demands for space within that unit and what we are finding out is that we have enough space, we just have to change the methods that people are using.

Now, that is not to say that we do not have growth areas like a Las Vegas, where we have whole new communities sprouting up. And in those cases we are building post offices.

Senator SHELBY. Let me ask you another question. Could you save money, for example, in a lot of areas, like smaller communities, by following the business practice of UPS and Federal Express where they have bought businesses like the copying company, where they will pick up parcels.

And it looks to me like in some of the smaller communities you might not need a new postal building. But if you could rent from a store there or if you could rent a little space in that store—and I know you do in certain instances—it looks like that would be economical.

Mr. POTTER. It would, Senator, and we have over 5,000—

Senator SHELBY. That is what I want to hear.

Mr. POTTER [continuing]. Contract post office units throughout the country. We also sell stamps at over 40,000 locations other than post offices. So we sell stamps in grocery stores, people can buy postage stamps through ATM's.

Senator SHELBY. You do not necessarily need a huge facility, do you?

Mr. POTTER. We do not, to have a retail operation, we do not.

Also, every one of our 60,000 rural routes are post offices on wheels. So they are designed to bring services to the customer.

People now can access, through the Internet they can now access a system—we call it Click and Ship—to print a priority label and pay for postage online.

So we are trying to bring as many services as we can to the doors of all Americans. We do not think that a traditional post office is the only way of doing it.

Now that said, we are still going to need post offices throughout the country for post office box operations. Our carriers are going to have to be housed, they have to come and collect their mail.

Senator SHELBY. But, you could have a facility without spending all of the money?

Mr. POTTER. Exactly and we are doing that, sir.

Senator SHELBY. Especially in smaller areas?

Mr. POTTER. Exactly.

CIVIL SERVICE RETIREMENT SYSTEM

Senator SHELBY. Let us go back a minute to the Civil Service Retirement System correction, you elaborated on that. Would you submit this plan to the committee when you get it?

Mr. POTTER. Yes.

Senator SHELBY. We would like that.

Mr. POTTER. We would be happy to do that.

CONSUMER ACCESS

Senator SHELBY. Expanded points of service. We were talking about this.

The President's Commission of the U.S. Postal Service proposed to revolutionize retail access by bringing a wider range of postal services and products to consumers in grocery stores, pharmacies, and other convenient locations. What is the current status of your

efforts—I know I alluded to it a minute ago—to expand access to retail Postal Services at venues other than post offices? In other words, where people are.

Mr. POTTER. We are actively engaged and talking with a number of national retail outlets.

Senator SHELBY. I am not trying to promote Wal-Mart or Target.

Mr. POTTER. You are pretty close there.

Senator SHELBY. But look at the traffic that is going through these or Home Depot or Lowe's. You go there and you see that there are thousands of people going through those stores all over America every day.

Mr. POTTER. Right, and we are working closely with several of them. There are issues that we are dealing with, with some legal requirements but we are actively engaged in that.

We recently had a deal with Hallmark Crown Stores. Seventy percent of all greeting cards end up in the mail, which I thought was a much higher number than I expected it to be. So we have worked out an arrangement with them where they will sell stamps, they will sell Priority Mail. And we are looking at all our options to do that. But we want to do it in an economical way.

FINANCIAL TRANSPARENCY

Senator SHELBY. Mr. Potter, the President's Commission has also proposed to try to enhance the transparency of the Postal Service's financial reporting. What steps have you done, working with the Board of Governors, to enhance annual financial reporting? Is the Postal Service committed to report financial information in accordance with the SEC reporting requirements and disclosure statements?

Mr. POTTER. The Postal Service has begun doing quarterly reports, that we believe are comparable to SEC. Obviously we are not a private corporation with stockholders but we have begun enhanced quarterly reporting. We have posted it on our web site. We have begun to report the equivalent of the 8-Q where basically if there is a major incident that might affect our finances, we are reporting that.

We have changed our annual statement to become what we believe is more transparent.

In addition to that, we are in contact and having discussions with the SEC and they are taking a look at our reports and we are looking forward to their recommendations on what we can do.

Right now we believe we are probably more transparent than most, in terms of the level of information that we provide through the rates process and through all of the oversight that we have.

Senator SHELBY. But first of all, you need to know your financial condition, the real financial condition. Otherwise, you really cannot run the place if you do not know what is going on.

Mr. POTTER. One of the outcomes of doing that was the Civil Service Retirement legislation change. At the time people were saying, there were some saying we were underfunding our retirement benefits.

Senator SHELBY. You certainly do not want to do that, either.

Mr. POTTER. But we were of the opinion that we might have been overfunding. So there was the exploration and thanks to GAO and

the administration, who took it upon themselves to help us with that, we were able to find out, thankfully, that we were in an overfunding condition.

SPONSORSHIPS

Senator SHELBY. What return on investment has the Postal Service realized from sponsorship deals such as those with the New York Yankees, Tampa Bay Devil Rays, and Lance Armstrong?

Mr. POTTER. The sponsorships, I do not have a specific return.

Senator SHELBY. Would you furnish that for the record?

Mr. POTTER. I can furnish a response. I do not know if we have a specific return.

Senator SHELBY. You need some kind of way to measure that.

Mr. POTTER. It is very subjective and we will provide you what our analysis is for the record.

Senator SHELBY. But if you were advertising in private business, you would measure that advertising to see if you are selling cars or you are moving certain goods and services. Otherwise, you stop that advertising or you change it.

Mr. POTTER. Exactly. We will provide it for the record. Some of the numbers are I believe, for example, some you will look at with a skeptical eye and say I do not think it is worth that much. I have that same skeptical eye when it comes to a few of these.

Senator SHELBY. I am not in a position to say.

Mr. POTTER. I am not either, so we will share with you what others' analyses of it are.

[The information follows:]

Sponsorships increase brand awareness, build positive corporate image, promote employees' corporate pride and accrue positive public relations. While some of those attributes may be difficult to measure, the Postal Service did commission its advertising agency, Campbell-Ewald, to track and measure the level of media exposure for the Postal Service for the July-August 2003 timeframe, including the 2003 Tour de France. The value of domestic exposure for the Postal Service for this 2-month time frame represented in excess of \$31 million.

Regarding the other sponsorships, the Devil Rays sponsorship should be regarded more as an advertising purchase; it solely comprises a billboard in the outfield promoting Priority Mail. Most of what we pay for in our Yankees sponsorship is also about advertising exposure in the stadium. However, in the case of the Yankees relationship we also received permission to produce philatelic merchandise that includes Yankee images. From the sale of this merchandise we gross several million dollars annually.

DELIVERY GROWTH

Senator SHELBY. The postal mail volume has continually dropped since fiscal year 2000, while the number of new addresses has increased by 5.4 million annually. The volume of first class mail and the number of delivery points are moving in opposite directions it seems.

How do you plan to address, Mr. Potter, the delivery requirements for communities with the rapid growth of homes and businesses? And once the determination has been made that a new postal facility is needed, what is the approval process? Is it too protracted or can you have a fast track?

You know, you have got communities growing by leaps and bounds and you have got some that are shrinking.

Mr. POTTER. We have got advance site acquisition where we actually go out and buy land in anticipation of growth.

Senator SHELBY. Save you some money, will it not?

Mr. POTTER. For example, out in Las Vegas we worked with the Bureau of Land Management, which has control over expansion beyond the city. And there are different actions that are taken—

Senator SHELBY. Did they give you the land? They should.

Mr. POTTER. We have been able to do that. I do not want to publicize it. We have been able to work certain arrangements, but in other parts of the country we cannot do that. But that is an example of what we do. We have different strategies in different areas around the country.

But advance site acquisition is one of the methods that we use where we anticipate growth.

Senator SHELBY. You do that by demographic trends, among other things, do you not?

Mr. POTTER. Exactly, and you just look at, for example, the mid-section of the country, you look at Montana, South Dakota, Iowa, down to Oklahoma. We have seen 30 percent of the population has been reduced. And obviously, the growth is in other sections.

We do look to build facilities in those areas of the country. And we have provided funds to do that and we are expanding the amount of money that we have spent on that.

UNIVERSAL SERVICE

Senator SHELBY. As you look at the demographics of rural America, rural America is shrinking in population. How do you anticipate that to reduce the facilities and your costs? What about the political overtones there?

Mr. POTTER. Well, reducing the facilities is a major issue and one that by law we cannot do for economic reasons. So we live within the law. It is one thing that we would hope that, if we were to get reform legislation, would be considered by the Congress.

Senator SHELBY. It is universal mail service.

Mr. POTTER. We are not going to back away from universal mail service. If we do, I do not think you need a Postal Service in this country. That is the reason that we were formed. There are communities in America that would not get service if it were not for the Postal Service. We recognize that and we believe that.

And I think that based on everything that I have read about the creation of the Postal Service, that that is why we were formed, to assure that. Some people have suggested that we get out of the package business, for example. So I said, how did we get into it?

It turns out in 1912 there was a law passed by Congress, prior to which the Postal Service was not able to carry anything that weighed more than 4 pounds. But what happened and what was happening throughout the country was that there were rural communities that were either getting no service or whatever service they were getting, was an infrequent service, they were paying exorbitant rates to get.

There were inner-city communities, the less affluent inner-city communities that were not getting regular package services. And when they were getting it they were paying exorbitant fees to receive it.

So when I look back historically I think wow, think about it today. If we were not in certain areas, I am not sure that the private sector could step in or would step in and deliver without surcharges.

And today, many of our competitors surcharge rural Americans for delivery of mail or companies that want to reach rural Americans. And certainly others do not have daily delivery to certain communities that are less affluent.

So I think the role of the Postal Service still is relevant today in light of what we were founded to do and the notion that everybody has equal access to a system to conduct business and send messages.

Senator SHELBY. At one time, you were in the banking business, too.

Mr. POTTER. We were and I wish we could get back into it. If you look at foreign post, many of them are getting into the banking business because they have retail outlets in these small communities.

Senator SHELBY. As chairman of the Banking Committee, I am not recommending that.

Mr. POTTER. I can always try, right.

ADDITIONAL COMMITTEE QUESTIONS

Senator SHELBY. Mr. Potter, we appreciate your appearance. We appreciate your candor and we have a number of requests you said you would get back with the record to us.

[The following questions were not asked at the hearing, but were submitted to the Service for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR RICHARD C. SHELBY

DETECTING BIOHAZARDS IN THE MAIL

Question. I am told by GAO and others that the detecting systems that the Postal Service has acquired may not have the capability to detect other hazardous agents, such as a chemical or radiological weapon. Given that there are many other toxic agents that can be sent through the mail without being detected by your system, is the Postal Service still planning to deploy such detecting systems?

Answer. Yes. We currently plan to install 1,708 Biohazard Detection Systems (BDS) at 282 facilities nationwide. National deployment of the BDS began in early April 2004. The 282 sites were selected because they represent our major processing facilities and cover our collection mail entry points for the entire postal network. Today, we have a total of 32 BDS systems in operation.

Nationwide installation of the BDS will resume on June 5. The program experienced a slight delay for testing to determine why some systems were producing "inconclusive" test results. Inconclusive or non-determinant results do not mean that a threat was in the mail. It simply means that tests had to be rerun to get a valid result.

Our goal through the testing, implementation and everyday use of the BDS has been to ensure the safety of every employee and the customers we serve. That is why it was critical that the system operated properly before installation continued. Postal Service Engineering, working along with the equipment contractors, conducted tests to determine the cause of the problem. The cause has been determined and changes to basic processes and procedures have been instituted to return BDS to normal performance levels.

Our methodology has been to develop a threat assessment that outlines known threats to our resources. Based on that assessment, we have identified and developed technologies to mitigate those known threats. These technologies include the BDS, capable of detecting biohazards, the Ventilation and Filtration System, capable of containing biohazards, and an irradiation process that neutralizes biohazards.

BDS was developed as a scaleable system. In its current state, the system can detect only for the presence of Anthrax. However, BDS can be expanded in the future to detect for other biological agents, as well as toxins such as Ricin. Working in conjunction with our primary contractor for the BDS program, Northrup Grumman, we are integrating a prototype device in the BDS equipment that is capable of detecting Ricin. Testing of the device is planned for the spring of 2004.

Question. How many systems have been installed? Where have they been installed and at what cost?

Answer. We currently have 31 production systems and 1 pre-production system operating. The pre-production system will be replaced with a production unit as part of the national deployment effort.

Unit Location	Number of Units	Costs (Approx)
Cleveland, OH	9 Production Units	\$2,250,000
Baltimore, MD	11 Production Units	2,750,000
Pittsburgh, PA	1 Pre-Production Unit	250,000
Lancaster, PA	5 Production Units	1,250,000
Queens, NY	6 Production Units	1,500,000

We estimate the manufacturing and installation costs for one BDS system to be approximately \$250,000 to \$180,000 for the hardware and \$70,000 for logistical support and installation efforts. To date, we have awarded a contract for the first production phase that consists of the manufacture and installation of 742 BDS systems. Total funding committed to date is \$212.1 million.

Question. Will additional detection capabilities be added in the future? If so, how cost effective is it to address one threat at a time?

Answer. We have developed a threat assessment that outlines known threats to our resources. Based on this assessment, we have identified and developed the Bio-hazard Detection System (BDS) capable of detecting biohazards. BDS was developed as a scaleable system. In its current state the system can detect only for the presence of Anthrax. However, BDS can be expanded in the future to detect for other biological agents, as well as toxins such as Ricin. Working in conjunction with the primary contractor (Northrop Grumman) for the BDS, we are integrating a prototype device within the BDS equipment that is capable of detecting Ricin. Testing of the device is planned for the spring of 2004.

As threats are identified and required to be detected by BDS, we will aggressively pursue adding the capabilities to our detection systems. However, in order to add additional threats to BDS, specific reagent sets and processes must be developed and scientifically validated with respect to each individual threat.

Question. Are there any analyses of how the Postal Service's efforts compare to the steps that private sector mail companies have taken to detect hazardous agents?

Answer. Yes. After the anthrax attacks of October 2001, the Postal Service consulted with the Joint Program Office (JPO) for Biological Defense as well as other military and Federal agencies. After these consultations, it was determined that a system did not exist that met the needs of the Postal Service. From October 2001 to September 2002 more than 20 systems were tested. BDS was the only system that successfully passed all test protocols jointly established by the Postal Service and Bio-Defense experts.

COST REDUCTIONS

Question. Please outline the cost-cutting measures planned for the Postal Service for fiscal year 2005.

Answer. We are in the process of finalizing cost reduction plans for fiscal year 2005, which will become a part of the fiscal year 2005 Integrated Financial Plan, scheduled for Board of Governors review in September. It is our expectation that we will plan for a sixth straight year of positive productivity gains as a result of continuing cost reduction efforts that has been successful in the past 5 years.

We have achieved savings through a variety of measures, which we will build upon for fiscal year 2005. Postal management will continue to identify best practices and achieve savings through breakthrough productivity initiatives. We will continue to deploy automation that will save mail processing costs, and that also will have a positive effect on delivery productivity through higher levels of sequenced mail for the letter carrier. We will also continue to achieve additional savings and cost avoidances through streamlined transportation networks, refreshed communications/computer networks, centralized support functions and opportunities presented by supply chain management initiatives.

Through stringent cost management, we have delivered \$5 billion in cost savings since 2000. This includes \$2.7 billion in savings resulting from Transformation Plan initiatives over the last 2 years. We are on track to surpass the \$5 billion in savings called for by the Plan over the 5-year period ending in 2006.

Question. What actions does the Postal Service intend to implement to continue the process of streamlining its operations?

Answer. In its July 31, 2003 report, the President's Commission on the United States Postal Service made a total of 35 recommendations derived from the findings of its four subcommittees that reviewed all aspects of Postal Service operations. Of those 35 recommendations, 17, or approximately 50 percent, aligned closely with the strategies that the Postal Service adopted as "near-term" strategies in its April 2002 Transformation Plan. The "near-term" strategies are those the Postal Service can accomplish without statutory change. For example, the President's Commission recommended that the Postal Service expand retail access to postal products and services. This was a key Transformation Plan strategy that is being implemented currently through such programs as retail access to postal services through partnerships with commercial retail stores, such as Safeway, and continuing expansion of product and service offerings over the Internet.

For a complete review of the progress of Transformation Plan strategies please see the attached November 2003 Transformation Plan Progress Report. Please note that the Transformation Plan made two key commitments: to hold rates steady and to remove \$5 billion in costs by the end of 2006. The Postal Service is well on its way to meeting these commitments. Rates will be held steady until 2006, and \$2.7 billion of the \$5 billion commitment was achieved by the end of fiscal year 2003.

Of the 18 remaining President's Commission recommendations, most deal with issues that require statutory change, such as changes in the governing structure of the Postal Service. In the Transformation Plan the Postal Service associated such topics with structural change, and while it made some recommendations, it recognized that many of the policy issues are within the purview of the Congress, not the Postal Service. There were a small number of President's Commission recommendations that the Postal Service did not address in its Transformation Plan in any form, such as personalized postage stamps and an independent advisory body for the evaluation, acquisition and deployment of technology. The Postal Service has been studying the feasibility of such recommendations. Early in 2004 the Citizens' Stamp Advisory Committee, which reviews and approves subjects for printed postage stamps, recommended against implementation of personalized postage stamps by a vote of eight to three. The Committee cited nine reasons, including concerns about counterfeiting and negation of the social value of stamps as a unifying symbol of culture and community.

E-COMMERCE INITIATIVES

Question. The 2003 Comprehensive Statement on Postal Operations states that the Postal Service is evaluating and modifying non-postal business plans. It is my understanding that e-commerce was an area of special concern. As a result of the e-commerce evaluation, what changes has the Postal Service made regarding commercial ventures, including e-commerce activities?

Answer. We have aggressively reevaluated e-commerce initiatives and we have eliminated those that didn't meet expectations. We are focusing on repositioned core-product initiatives to satisfy customer needs. Our Postal Service website, www.usps.com, is a logical extension of our core mission. Our customers may access this site to buy stamps, look up ZIP Codes, and even ship parcels through our new Click-N-Ship service, a convenient online shipping solution that allows customers to send mail without leaving their home or office.

And we are moving toward greater reliance on private sector providers to eliminate postal expenses. For example, we repositioned Electronic Postmark and Mailing OnLine to private sector agreements.

We will continue to support initiatives that align with our core mission. As we gain experience, we will assess performance and make determinations on a product-by-product basis.

Question. How do initiatives, such as the partnership with Hallmark Gold Crown, differ from prior e-commerce ventures?

Answer. Our latest initiative is building upon previous initiatives designed to expand customer access without creating additional, permanent network costs.

Recently, we have identified potential partnerships with sophisticated multi-location retailers, such as Hallmark, through standardized contract terms and conditions that are individually awarded. These limited-service contract postal at units will provide only the most desired postal products and services and times and in

locations that are convenient to consumers. This relationship between two partners with an interest in “keeping customers in the mail” was not intended to replace post offices that offer a full line of services.

These multi-location retailers are easily recognized and well respected brands that complement the USPS brand. These providers also have the marketing expertise and advertising funds to support the promotion of these units. These partners will provide retail services below the cost of the traditional post office.

Hallmark was the first limited service CPU provider and the first to use Postal Service-provided postage evidencing devices to affix postage. By using this device, we reduce administrative costs in the field by eliminating stamp orders (stamps are provided under the consignment program) and eliminating daily financial reporting as well as auditing and bonding requirements. Because Hallmark stores pre-pay for the postage loaded onto the provided meters, the consumer benefits from conducting their store purchase with their postal purchase in one transaction and they can use their credit cards (credit card postal purchases are not allowed in traditional contract postal units.)

By providing expanded access to Postal Service customers, contract postal units (CPUs) provide the Postal Service with a flexible and adjustable retail network that is a lower-cost alternative to Postal owned facilities.

As customer behavior changes and they begin to access postal services through the Internet or through other means, and as they move to new communities, we will have the ability to adjust our retail network to meet the demand. CPU partners typically offer customers the convenience of providing postal services in the evenings and on weekends where customers live, work and shop.

Customers can also purchase stamps “at post office prices” at participating Stamps-on-Consignment locations such as grocery stores, convenience stores, drug stores, banks and ATMs. Approximately 40,000 locations and ATMs are part of this network. These stamp channels also provide expanded hours and days of access. These stamps are provided to our consignees through our vendor. The Postal Service cost to sell stamps through consignment is one of our least expensive methods of selling postage.

REVENUE FORECAST

Question. Is it possible to offset the revenue loss without additional rate increases?

Answer. We continuously assess our products and services to identify ways to stabilize costs to offset any revenue losses independent of our rate increases. As mentioned earlier, we are on track to take \$5 billion in cost out of the system by 2006. Concurrently, we are working to enhance our products to keep pace with customer needs and grow revenue.

Question. What is the Postal Service doing to reverse the revenue losses it has experienced with Express Mail since 2000 and Priority Mail since 2001?

Answer. In terms of Express Mail and Priority Mail, customers have told us that the four most important factors in choosing a shipping company are service/reliability, price, ease of use/access, and information.

In late 2001, we entered into a transportation agreement with FedEx to fly a significant portion of our Express Mail and Priority Mail. As a result, costs were reduced and service levels are at an all time high. We are also regularly reviewing our Express Mail network for opportunities to expand our overnight reach.

Some of the cost-reduction initiatives we are working on include processing and barcode standardization to increase automation of the parcel mail-stream. We recently awarded a contract for 75 Automated Package Processing Systems (APPS) that will provide high-speed parcel and bundle processing, reduce labor costs, and provide en route tracking information for customers.

Another initiative to help generate revenue was our recent launch of a pre-paid Priority Mail Flat Rate envelope to make it easier for customers to use Priority Mail service. We are also evaluating a Flat Rate Priority Mail box. These products will make it easier for customers to mail documents and merchandise anywhere in the country for one flat rate without the need for weighing and rating to determine how much postage needs to be placed on their package. We also enhanced our parcel pickup capabilities by allowing customers to notify their local post office when they have prepaid Priority Mail and Express Mail packages to be shipped. The notification alerts their carrier to pickup the packages at the same time they deliver their mail. Since we are already at the address, there is no charge for the pickup.

PUBLIC-PRIVATE PARTNERSHIP

Question. The President's Commission stated that the Postal Service should continue to look for opportunities to offer discounts for additional work-shared products and to expand opportunities for small mailers to participate in them, particularly as new technologies are developed, that reflect the lowest combined public-private sector costs.

Does the current rate-setting environment prevent the implementation and acceptance of work-sharing discounts with large mailers and cost the USPS potential sources of revenue?

Does the Postal Service believe the work-share discounts are appropriate?

What opportunities does the Postal Service foresee regarding additional work-sharing and what impact will it have on the budget?

Answer. The current rate setting environment has not prevented the implementation or acceptance of generic worksharing discounts. Generic discounts are available to all postal customers and are used by thousands of customers; they are applied in a standard manner for use at thousands of postal facilities. We note that these thousands of customers are not only large mailers, but also small, local businesses and nonprofit organizations.

Many customers or groups of customers have different mail preparation capabilities. At the same time, the operations of different postal facilities can be enhanced by variations in mail preparations designed to accommodate unique mailing needs. This creates potential opportunities to design worksharing arrangements for small groups of customers (niche classifications) or individual customers (negotiated service agreements or NSAs.) The current rate setting process often involves protracted and expensive litigation for these relatively simple cases. For instance, a current small filing for Periodicals, which affects primarily one mail preparer and roughly a tenth of 1 percent of total mail volume, is 3 months into what is an "accelerated" schedule. Realistically, this process cannot be repeated for thousands of customers or customer niches.

The Postal Service is a strong supporter of workshare discounts. In testimony before the President's Commission on the U.S. Postal Service, Chief Marketing Officer Anita Bizzotto stated:

"Partnering with customers through worksharing has been one of the major success stories of the U.S. Postal Service over the past 30 years. These partnerships, now valued at \$15 billion a year, have provided affordable mailing alternatives for customers; reduced Postal Service costs; and; have been a primary source of mail volume growth. These partnerships and worksharing discounts have helped usher in the age of automation by encouraging customers to prepare machine-readable mail and have remained an important tool for aligning the mail with the operating environment."

Some opportunities for additional worksharing will come in the form of more customized arrangements. At the same time, there is still opportunity for new generic arrangements. For instance, we believe more incentives are needed to encourage the transporting of magazines and newspapers downstream closer to their points of delivery. Such destination entry incentives have been successful in holding down rate increases for parcel and advertising mail customers but current policy has limited the applicability of these incentives. We have not succeeded in extending worksharing opportunities to Priority Mail but we are looking for opportunities that would serve the needs of Priority Mail customers.

Lastly, we are concerned that the language in some of the legislative proposals may have a harmful effect on workshare in the future. In general, the more rigid standards which are applicable only to worksharing rates run counter to attaining one of the enunciated goals of postal reform: a more flexible rate structure. Rigid standards for worksharing rates would limit the Postal Service's ability to implement and maintain workable worksharing rates in a dynamic operating environment.

RETAIL STORES REVENUE

Question. Has the Retail Network Optimization Plan been implemented?

Answer. Since the initial development of the Transformation Plan, the Postal Service has established a retail direction that is focused on access, convenience, and ease of use for the customer. Building upon these goals, we have implemented a program that allows customers to purchase postage on-line, enabling letter carriers to pick up their postage materials when the carrier is delivering to the area. This is accomplished via the USPS Web site and eliminates the need for a special trip to

the Post Office, which is a real convenience to small businesses and consumers who cannot always make a visit to the post office during normal businesses hours.

Our retail network of access is evolving on a continuing basis and does not easily fit into an absolute optimization plan. For example, since the development of the Transformation Plan was announced, we have implemented a much more robust Web access channel. We do know that in order to serve the customer we must be where they work, shop, and live. Our focus is to provide that access and to adjust the network to meet those needs.

In the Transformation Plan we talked about technology and the role it plays for retail. We have begun the roll-out of 2500 Automated Postal Centers (APCs), that enables our customers to perform 80 percent of the most common transactions that take place at our counters. They are located in our busiest offices and provide access to our products and services up to 24 hours a day, 7 days a week. Implementation will be completed by December of this year.

The retail network continues to evolve, and like most businesses it is more than “brick and mortar”—all of the access points are critical in order to provide universal service. The Postal Service will continue to review, monitor, and adjust this network (expansion and consolidation) to ensure that it is operating as efficiently as possible and providing needed services to our communities.

Question. How were threshold values (proximity to other postal facilities, retail productivity indicators, number of households, deliveries, walk-in revenue, and small business accounts) determined?

Answer. We do not have established thresholds for the Postal Service. We have a database that contains this type of information that we provide to the field to help them determine how to adjust their retail operations to meet the needs of customers.

EMERGENCY PREPAREDNESS EXPENSES

Question. Since 2002, Congress has provided emergency appropriations to support the Postal Service’s anthrax emergency preparedness activities. After the attacks, Congress appropriated \$762 million to decontaminate postal buildings and to buy and install biohazard detection equipment. The Postal Service reportedly has spent a total of \$971 million on emergency preparation, which include \$209 million from its revenue.

Please provide an overview of what this funding has been spent on to date.

Answer. Following this paragraph, please find excerpts from the Postal Service’s fiscal year 2005 Budget Congressional Submission, which addresses emergency preparedness costs to date, as well as our appropriations request. The following is information quoted directly from this document.

U.S. Postal Service Fiscal Year 2005 Budget Congressional Submission, page 12:

“Pursuant to Public Law No. 107–117, the Postal Service submitted on March 6, 2002, an Emergency Preparedness Plan that outlined and discussed in detail the activities considered necessary to provide for the safety of our employees and customers. The Plan covered a span of several years and the activities are categorized as Near-Term, Intermediate-Term and Long-Term in describing the time frames during which these activities are planned. At the request of the Appropriations Committee, an update to the Plan was submitted April 30, 2003.

“In the Plan, obligations for the Near-Term activities identified for fiscal year 2002 were projected to total \$587 million. Of this total, \$500 million was funded by Public Law 107–117, and \$87,000,000 was funded by Public Law 107–206.

“No funding for emergency preparedness was included in the initial Postal Service Fiscal Year 2003 Budget Request pending completion of the Emergency Preparedness Plan, however, a fiscal year 2003 budget amendment request was subsequently forwarded to the Office of Management and Budget to fund activities totaling \$799.8 million relating to fiscal year 2003.

“The Postal Service 2004 Budget requested \$350 million to continue emergency preparedness activities.

“No additional funding beyond the \$587 million, received in 2002, has been received.

“The Plan and related requests are dynamic and, as such, some modifications are necessary as our field-testing proceeds, our knowledge of biohazard detection increases, and as technology matures.”

U.S. Postal Service Fiscal Year 2005 Budget Congressional Submission, page 13:

“Significantly more funds than originally anticipated were required to clean and restore two mail processing centers that had been closed due to anthrax contamination.

tion. Safety was the paramount concern in performing this task and actions were coordinated with several scientific, medical, and government agencies. Delays were experienced due to questions regarding indemnification of contractors performing the process and the sheer scale of the task for which EPA required additional testing and verification. Reimbursement is now requested for the additional costs required in the refurbishment of these facilities.

"A major portion of the \$779 million Emergency Response funds requested for fiscal year 2005 and prior years will be used to continue acquisition and deployment of ventilation and filtration (VFS) equipment that was initiated with the funds provided previously. A portion of the \$587 million provided during fiscal year 2002 is being used to develop, acquire and install VFS on our culling and canceling equipment. Our Emergency Preparedness Plan discussed further deployment of VFS equipment to be installed on our delivery barcode sorters (DBCS) and automated flat sorting machines (AFSM) 100 and loose mail systems. The \$779 million includes funding for the DBCS and AFSM 100 VFS acquisition and deployment."

[In thousands of dollars]

Item	Prior Years	Fiscal Year 2005	Total
Building Restoration	268,800	268,800
Biohazard Detection System	402,700	24,000	426,700
Ventilation and Filtration	271,700	364,000	635,700
DC Area Mail Irradiation Facility	9,000	7,000	16,000
Other	18,800	18,800
Subtotal	971,000	395,000	1,366,000
Appropriation Received	- 587,000	- 587,000
Total	384,000	395,000	779,000

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

CONSOLIDATION OF RURAL POST OFFICES AND CLOSURE OF SMALL POST OFFICE

Question. There have been instances when the Postal Service does not consult with or officially inform the customers and community prior to closures or consolidation. Why not? What is the process employed by the Postal Service when it closes a facility or consolidates facilities?

Answer. The Postal Service follows post office closing and community notification procedures outlined in Title 39. There are occasions, however, due to emergency situations such as loss of lease with no suitable alternate quarters, a natural disaster or flood where there are no suitable alternate quarters or other similar emergencies. The Postal Service considers a suspension a temporary situation until a decision is made to either re-open the facility or propose discontinuance. If discontinuance is proposed, then a community meeting along with customer questionnaires are sent out to gather input from the community.

Attached are the Postal Service regulations governing the discontinuance and emergency suspension of postal facilities.

POSTAL FACILITY CONSTRUCTION

Question. The fiscal year 2004 Omnibus Appropriations bill directed the Postal Service to report on localities that require a new postal facility, the current conditions of post offices in need of renovation, and when a new facility or replacement will be built. The report is required within 90 days of the enactment or by my count, April 22, 2004. Can you give me a preview of what the report will say? What is the status of postal facilities in Washington State and is there a need for any new construction or renovation in my State?

Answer. In fiscal years 2001 and 2002 and part of 2003 due to financial constraints, the Postal Service implemented a freeze on capital and expense investments related to facilities. Exceptions to the freeze were allowed for ongoing construction and, on a case-by-case basis, projects were submitted to Headquarters for review and approval to address health and safety, emergency, legal, and lease pre-emption issues. Exceptions were also allowed for repair and alteration of facilities due to legal, health and safety, emergency, and maintenance of our infrastructure.

During fiscal year 2003, the freeze was lifted. Annual budgets were established for repairs and alterations. Repair and alterations continue to be limited to projects

addressing legal, health and safety, emergency, and infrastructure maintenance issues, within the budget provided. At the same time, a new national prioritization system was established for new or replacement customer service projects. This process focused on space deficiency and growth, and continued to allow exceptions to be submitted as part of the prioritization process and throughout the year for health and safety, emergency, legal, and lease preemptions issues, as well as those projects which generated favorable returns on investment. The projects included on the list depend on the funds available in the budget and the priority scores of the projects submitted. These do not include numerous other projects which are approved on an ongoing basis as exceptions.

As a result of the actions above, we believe we are addressing our most critical facility needs and prioritizing projects within the funding available.

Regarding Washington State facilities, the following is a list of projects being pursued as part of approved plans:

New Facility Projects

- Bickleton Main Post Office
- Clarkston Main Post Office
- Ford Main Post Office
- Lake Stevens Carrier Annex
- Lilliwaup Main Post Office
- Seattle—Wedgewood Carrier Annex
- Southworth Main Post Office
- Spokane Vehicle Maintenance Facility
- Union Main Post Office

Repair and Alteration Projects

- Auburn Main Post Office—lobby remodel
- Colfax Main Post Office—life safety systems upgrade
- Newport Main Post Office—heating/air conditioning replacement
- Pasco—Processing & Distribution Facility—heating/air conditioning controls
- Pullman Main Post Office—security upgrade
- Spokane—Hillyard Station—enlarge collection box drop-off lane
- Spokane Processing & Distribution Center—install concrete pad enclose dock
- Tacoma Processing & Distribution Center—security upgrade
- Vancouver—Downtown Station—window replacement
- Veradale Main Post Office—enclose dock

POSTAL REFORM/REGULATORY BOARD ISSUES

Question. Legislation enacted last year shifted the responsibility of funding civil service retirement benefits earned by postal employees while they served in the military from the Treasury Department to the Postal Service. I understand that most of the financial obligation is due to military service performed before the modern-day Postal Service was even created in 1970. The President's Commission recommends that military service costs not be borne by the Postal Service. What would be the financial impact on the Postal Service if the Postal Service is to be responsible for this \$27 billion cost?

Answer. The Postal Service has submitted two proposals concerning the disposition of these funds. Our first proposal requests that the United States Treasury again be required to fund all CSRS costs associated with the military service of Postal Service employees and retirees. Our second proposal assumes that responsibility for funding military service costs is transferred to the Postal Service.

Under the first proposal, in fiscal year 2006, the Postal Service will contribute \$5 billion to fund and pre-fund retiree health benefits for all career employees; under the second proposal it will contribute \$1.9 billion to fund retiree health benefits and to pre-fund retiree health benefits for career employees hired after fiscal year 2002. The difference in the amounts reflects the fact that returning the funding of CSRS costs of military service to the Treasury increases the "savings" under the Act, and makes available additional funds that can be used to pre-fund retiree health benefits for career employees.

Both proposals address the funding retiree health benefits, which we estimate to be valued at between \$40 billion and \$50 billion, depending on the long-term medical inflation assumption used, at the end of fiscal year 2002. At the end of fiscal year 2003, post-retirement health benefit obligations were estimated to be valued between \$47 billion and \$57 billion.

Each proposal stands on its own merits. Neither was designed around its impact on rates. The first proposal returns to the U.S. Treasury the responsibility for funding CSRS pension costs earned by military service of Postal Service employees and

uses funds made available from this adjustment to pre-fund retiree health benefits cost for current Postal Service employees. However, to provide the required level of funding, an additional \$1.2 billion in funds would be necessary, causing a 2 percent increase in rates.

In our second proposal, it is assumed that the transfer of CSRS military service costs to the Postal Service is not reversed and that retiree health benefits are pre-funded only for new employees hired after fiscal year 2002, when the pension funding reform legislation was enacted. This would require approximately \$200 million more in additional funds, causing a 0.3 percent increase in rates. It would be possible to select arbitrarily a different hire date for funding employee retiree health benefits for new employees to match the additional funding requirement of \$1.2 billion, but it would be just that, arbitrary.

Question. I also want to let you know that I have heard concerns from constituents about the recommendation to establish a new Postal Regulatory Board. This entity would replace the current Postal Rate Commission and significantly expand its authority. What are your views on this proposal?

Answer. We understand the rationale the President's Commission has defined for the Postal Regulatory Board. Yet regulators are normally required to operate within limits and guidelines. Regulated private companies and their shareholders have legal protections against arbitrary action by the regulator that the Postal Service cannot have as a government institution.

At the least, there should be standards drawing a clear line between what is appropriately a managerial function within the oversight of the Governors or Directors, what is a regulatory function committed to the regulator, and what is a public policy function reserved to the Nation's lawmakers.

For instance, the Postal Regulatory Board can revisit the vital national issues of the postal monopoly and universal service. These are clearly issues of broad public policy that should be resolved as part of our management responsibilities, as determined by Congress.

They are not regulatory issues. Without defined limits or guidelines, the regulator could conceivably limit the monopoly in such a way as to jeopardize universal service or even redefine the scope of the Nation's mail service itself.

The powers of the proposed Postal Regulatory Board could also affect the outcome of the collective-bargaining process. The Postal Service has been, and continues to be, a strong supporter of collective bargaining. This process of give and take assures that the interests of our employees—and the unions that represent them—are considered within the larger picture of the Postal Service's financial situation and the needs of our customers.

By determining the range within which wages may be negotiated, the Postal Regulatory Board could impede the ability of the parties to successfully negotiate agreements.

REVENUE FOREGONE REIMBURSEMENT

Question. Mr. Potter, I understand that for the first time ever, the fiscal year 2005 President's Budget does not include the \$29 million reimbursement to the Postal Service for the revenue foregone debt. Do you know why this has occurred? Do you consider this a violation of the agreement that has been in operation since the early 1990's when legislation was enacted that promised the Postal Service \$29 million annually from 1994 through 2035?

Answer. The Office of Management and Budget (OMB) did not provide us with their rationale for not including our request for payment of earned but unpaid Revenue Foregone appropriations in the President's fiscal year 2005 budget request.

In a December 3, 2003 letter to OMB Director Bolton, the Postal Service formally requested that OMB reconsider the funding reductions of the Postal Service, including reductions in revenue foregone payments, which OMB had proposed to include in the President's budget request. An OMB official verbally informed us on December 17 that our requested changes had been denied.

In accordance with the Revenue Foregone Act of 1993, the Postal Service is to receive \$29 million annually through 2035. These payments, totaling \$1.2 billion, cover the cost of services we provided in fiscal years 1991 through 1993, but for which there were insufficient amounts appropriated. They also cover payment for services provided from fiscal year 1994 through 1998. The payment requested for fiscal year 2005 would be the twelfth in the series of scheduled 42 annual payments.

In an unusual departure from past Presidential budget submissions, the 2005 budget is silent on this statutory reimbursement. The Postal Service is required under generally accepted accounting principles to reduce the value of an amount receivable to reflect any uncertainty as to full payment. As a result, the failure to re-

ceive these funds may require the Postal Service to treat these remaining payments, which amount to nearly \$900 million, as a bad debt, significantly increasing our costs. As we work to address our long-term obligations in a responsible manner, it is counterproductive to increase costs by writing off a debt deferred by interest-free installment payments spread over a period of 42 years.

The second part of our request is for \$75.9 million for free mail for the blind and for overseas voting materials, as defined by statute. This provides funding for the free mailing of materials used by the blind and others who cannot use or read conventionally printed materials. It also includes absentee balloting materials that can be mailed free by members of the armed forces and other United States citizens residing outside of the United States, and balloting materials that can be mailed in bulk between State and local elections officials.

Our appropriations request for free mail differs from the President's budget proposal of \$61.7 million. The President's budget proposes to continue the practice of "advance" funding the amount requested for free mail. This means that funding is "advanced" until the fiscal year following the actual mailings and not made available to the Postal Service until after these mailings have been handled and delivered. The Postal Service is not authorized to control or limit these mailings to reduce the funding needed. And while that is not a role we seek, the simple fact is that we have no way to mitigate the shortfall in funding. Providing less than the requested amount will only compound the financial burden caused by the current "advance" funding.

The amounts due under this Act are for the absolute nominal costs incurred related to services previously performed. The Act's requirements to reimburse the Postal Service over an extended time period with no payment of interest places additional cost burdens on other postal rate payers. For this reason, the Postal Service in the past has requested an accelerated repayment program.

POSTMASTER VACANCIES

Question. According the Postal Service, there are more than 1,600 post offices with postmaster vacancies. Please explain what steps are being taken to fill these postmaster slots.

Answer. Six hundred of the current 1,600 vacancies consist of emergency closings and/or other non-vacancy, leaving about 1,000 valid vacant postmaster positions. The attrition rate in the Postal Service is about 5 percent, which equates to approximately 1,380 (5 percent of the total post office count of 27,620). With about 1,000 currently, we are below the number of postmaster vacancies that would be expected. The entire hiring and promotion process takes, at the very least, 90 days and includes the following: vacancy announcement posting, review of applications, interview of the most eligible applicants, and generating the selection and non-selection communication.

Vacant post offices are often used to develop employees who have identified the position of postmaster as a career goal, with the average developmental assignment lasting about 90 days. As positions are filled, others become vacant, which creates a constant vacancy rate of about 3 to 5 percent or 830 to 1,380 positions. The Postal Service is currently within that range.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. The administration has proposed to permanently repeal the annual appropriation for foregone revenue. What effect do you anticipate the permanent repeal of this appropriation would have on postal rates?

Answer. The receipt of these funds for past services performed is used to pay for current-period expenses. Accordingly, if the funds are not received, the price of stamps will increase directly related to these costs.

If the entire sum were written off as bad debt, postal rates could increase by approximately 0.5 percent in the year of the write-off. In each of the remaining years of the payment period, lesser, but direct, rate increases would result.

On average we would expect the rate increase to be similar for all mailers. However, since commercial mail comprises more than 70 percent of all mail, we would expect that in terms of absolute dollars, commercial mailers would shoulder the greatest burden.

If any of the payments due as specified in the Revenue Foregone Reform Act of 1993 are not received, the loss in reimbursement for services performed will increase postal rates directly. Accordingly, postal rate payers will fund the hundreds of millions in debt authorized to be paid through appropriation.

Question. Under postal pension reform legislation (Public Law 108–18) enacted last year, the U.S. Postal Service will be required to assume all pension costs associated with Postal employees with military experience. What effect do you anticipate that this provision will have on postal rates?

Answer. The Postal Service has submitted two proposals concerning the disposition of these funds. Our first proposes that the United States Treasury again be required to fund all CSRS costs associated with the military service of Postal employees and retirees. Our second proposal assumes that responsibility for funding military service costs is transferred to the Postal Service.

Under the first proposal, in fiscal year 2006, the Postal Service will contribute \$5 billion to fund and pre-fund retiree health benefits for all career employees; under the second proposal it will contribute \$1.9 billion to fund retiree health benefits and to pre-fund retiree health benefits for career employees hired after fiscal year 2002. The difference in the amounts reflects the fact that returning the funding of CSRS costs of military service to the Treasury increases the “savings” under the Act, and makes available additional funds that can be used to pre-fund retiree health benefits for career employees.

Both proposals address funding retiree health benefits, which we estimate to be valued at between \$40 and \$50 billion, depending on the long-term medical inflation assumption used, at the end of fiscal year 2002. At the end of fiscal year 2003, post-retirement health benefit obligations were estimated to be valued between \$47 billion and \$57 billion.

Each proposal stands on its own merits. Neither was designed around its impact on rates.

The first proposal returns to the U.S. Treasury the responsibility for funding CSRS pension costs earned by military service of Postal Service employees and uses funds made available from this adjustment to pre-fund retiree health benefits cost for current Postal Service employees. However, to provide the required level of funding, an additional \$1.2 billion in funds would be necessary, causing a 2 percent increase in rates.

In our second proposal, it is assumed that the transfer of CSRS military service costs to the Postal Service is not reversed and that retiree health benefits is pre-funded only for new employees hired after fiscal year 2002, when the pension funding reform legislation was enacted. This would require approximately \$200 million more in additional funds, causing a 0.3 percent increase in rates. It would be possible to select arbitrarily a different hire date for funding employee retiree health benefits for new employees to match the additional funding requirement of \$1.2 billion, but it would be just that, arbitrary.

Question. What are the likely financial ramifications of the sequestration of the U.S. Postal Service’s Civil Service Retirement System (CSRS) contribution savings as a result of Public Law 108–18?

Answer. Under this reform legislation, it will be necessary to include the “savings” as an expense in the revenue requirement of future rate filings. Therefore, in order to obtain funds to place in an escrow account in fiscal year 2006, a 5.4 percent increase in postage rates will be required unless the law is amended. Additionally, bi-annual postage rate increases between 1.0 percent and 1.5 percent would be necessary just to cover the escrow requirements over the next 15 years. These escrow-driven rate increases will cause further declines in mail volume, contributing to the need for higher additional rate increases in order to fund the ever expanding delivery network.

Question. How will the repeal of the foregone revenue appropriation, the assumption of military pension costs, and the sequestration of CSRS pension savings affect the Postal Service’s long-term transformation?

Answer. These actions, all of which require the Postal Service to subsidize the Federal Government, are nothing more than a transfer of its obligations from taxpayers to postal ratepayers. These transfers, totaling billions of dollars, will jeopardize the financial viability of the Postal Service and its long-term transformation efforts. It makes no sense in any circumstance to retroactively transfer such costs to the Postal Service, a self-sustaining public organization. But, in order to defray the financial obligations of the Federal Government, these actions would: transfer to the Postal Service the Federal Government’s obligations of over \$27 billion for military service pension costs; deny the Postal Service nearly \$900 million in revenue foregone funds due for services it provided between 1991 and 1998; and deprive the Postal Service of an estimated almost \$70 billion of its own pension overfunding. Further, in 2006, the Postal Service will be required to place the “savings” resulting from the Act in an escrow fund that, over time, would require postal rate payers to pay higher rates in order to fund the additional \$70 billion escrow requirement. Taxing the Postal Service with these transfers at this time ignores the organi-

zation's critical business needs and the significant financial challenges resulting from declining mail volumes and the requirement to fund an ever expanding delivery network necessary to provide universal service.

Further, implementing these cost transfers to the Postal Service would ignore the stated concerns of the President's Commission on the United States Postal Service regarding the fiscal health of the Postal Service and would run counter to the Commission's recommendations for actions necessary to institute a transformative business model for the Postal Service.

Question. What is the status of the implementation of the Postal Service's Emergency Preparedness Plan?

Answer. The Emergency Preparedness Plan covers four major areas: health-risk reduction, detection, intervention, and decontamination. First and foremost, we have been working swiftly over the past 2 years to ensure the safety and security of our employees and customers. While many efforts are underway, we are accomplishing this monumental task primarily through the development of leading-edge technologies and changes to our standard operating procedures.

Health-Risk Reduction

We have introduced improved standard operating procedures, including the use of High Efficiency Particulate Air (HEPA) vacuums to clean our mail processing equipment. Additionally, the Postal Service, in conjunction with the National Institute of Occupational Safety and Health (NIOSH), developed Ventilation and Filtration Systems (VFS). These systems are installed on key mail processing machines and function to collect and contain airborne particulates from the machines during mail processing operations. We have purchased over 1,300 systems to be deployed at our 282 major mail processing centers nationwide. National deployment of the systems began in April 2004.

Detection

The Postal Service has developed the Biohazard Detection System (BDS) to act as an early warning system against the threat of biohazards that may enter our mail network. We currently plan to install 1,708 detection systems at 282 facilities nationwide. National deployment of the BDS began in April 2004 and we currently have a total of 32 BDS systems in operation.

In accordance with our threat assessment, we are also reviewing upgrades to the BDS that will allow for the detection of additional threats including toxins such as Ricin.

Intervention

We continue to irradiate government mail prior to its delivery. This process neutralizes hazardous substances that may be contained in the mail. We are meeting this commitment by contracting with IBA in Bridgeport, NJ to irradiate and sanitize the government mail. Additionally, we are considering plans to build and operate our own irradiation facility specifically designed to meet our needs. The facility will significantly reduce our annual operating expenses and improve our service with respect to government mail.

Decontamination

We have successfully decontaminated both Postal Service facilities that were closed due to the anthrax attacks of 2001. The Curseen/Morris facility (formerly known as the Brentwood facility) in Washington, DC resumed operations in December of 2003 and continues to operate today. The Trenton, NJ facility was successfully decontaminated in February 2004. Efforts are underway to refurbish this building and it is expected to begin operations in early 2005.

SUBCOMMITTEE RECESS

Senator SHELBY. We wish you well and thank you for appearing with us.

Mr. POTTER. Thank you, Mr. Chairman.

Senator SHELBY. The subcommittee is recessed.

[Whereupon, at 11:14 a.m., Thursday, April 1, the subcommittee was recessed, to reconvene subject to the call of the Chair.]